

FITCH PLACES VIRGIN ISLANDS WAPA ON RATING WATCH NEGATIVE

Fitch Ratings-New York-20 September 2019: Fitch Ratings has placed the 'CCC' long-term ratings for the U.S. Virgin Islands (USVI) Water and Power Authority (WAPA) on Rating Watch Negative.

WAPA is the sole provider of electric and water service to the USVI (St. Thomas, St. Croix and St. John). The electric system generates, transmits and sells electric power and energy to approximately 50,000 residential, commercial and large power customers, including the government.

The Negative Watch reflects mounting concerns that a restructuring of, or default on, WAPA's outstanding debt may be probable following comments by public officials that loan forgiveness and financial assistance from federal agencies should be sought as a means of addressing the utility's weak financial profile.

The rating action further reflects prevailing concerns related to (i) the adequacy of ongoing cash flow and liquidity, particularly given the Virgin Islands Public Service Commission's continuing reluctance to approve requested rate increases, (ii) the utility's ability to procure adequate fuel supply, and (iii) the lingering effect of the 2017 hurricanes on the demand for electricity and the regional economy, in general.

WAPA's obligations related to its electric system revenue bonds were reportedly paid on July 1, 2019; however, the authority has not released audited financial statements for any period after fiscal year 2017.

The Rating Watch is related to the open discussion of potential debt restructuring, which Fitch believes will continue. Fitch expects to resolve the Rating Watch over the next few months as clarity increases. Evidence that a restructuring of, or default on, WAPA's outstanding debt is probable, including the passage of enabling legislation or an inability to meet near-term liquidity demands, would result in negative rating action.

ESG CONSIDERATIONS

WAPA has ESG Relevance Scores of 4 for exposure to environmental impacts, governance structure, group structure and financial transparency due to the authority's exposure to extreme weather events and political influence, as well as its inability to issue timely audited financial statements, which have a negative impact on the credit profile, and are relevant to the ratings in conjunction with other factors.

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Fitch has not evaluated the general credit quality of the government associated with this revenue bond rating. Fitch published an exposure draft of state and local government tax-supported criteria ('Exposure Draft: U.S. Tax-Supported Rating Criteria,' dated July 23, 2019 found at fitchratings.com) that proposes a revised approach to local government special revenue and true sale security ratings. If applied in the proposed form, Fitch would assess the general credit quality of the related government.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Public Sector, Revenue-Supported Entities Rating Criteria (pub. 28 May 2019)
<https://www.fitchratings.com/site/re/10064680>
U.S. Public Power Rating Criteria (pub. 03 Apr 2019)
<https://www.fitchratings.com/site/re/10066654>

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